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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of

Regulatory Reform for Local Exchange Carriers Subject to Rate of Return Regulation	)	CC Docket No. 92-135

Comments of
PTI COMMUNICATIONS

PTI Communications (PTIC)[1] respectfully submits its comments in response to the Commission's Notice of Proposed Rulemaking, FCC 92-258, released July 17, 1992. PTIC not only offers these comments, emphasizing its specific area of concern, but also wishes to support the comments of the United States Telephone Association, to be filed today.

[1] The PTIC companies are wholly owned subsidiaries of Pacific Telecom, Inc. Its study areas include members of the Telephone Utilities Exchange Carrier Association's (TUECA) Interstate Traffic Sensitive Access Tariff, as well as members of the National Exchange Carrier Association's (NECA) pool for Traffic Sensitive Access. All PTIC study areas participate in NECA's Carrier Common Line and End User Pools.

The companies have telephone operations in the following 11 states: Alaska, Colorado, Idaho, Iowa, Minnesota, Montana, Nevada, Oregon, Washington, Wisconsin, and Wyoming. PTIC services approximately 370,000 suburban and rural, subscriber access lines.

Introduction

PTI Communications supports the Commission's efforts to address the needs of small and mid-sized local exchange carriers (LECs) in the development of regulatory alternatives. Like that of its industry counterparts, PTIC's mission is to provide high quality and affordable, local telephone service to its subscribers.[2] However, PTIC perceives the challenges it must face to accomplish this goal as significantly different from those facing the largest LECs.

Arguably, rules governing rate of return companies were written for (but now, are no longer applicable to) the big players in our industry. Likewise, as evidenced by a conspicuous lack of voluntary elections, the recently adopted rules introducing price caps appear to be targeted for the largest of LECs as well.

When evaluating the price cap rules, it appeared that an inordinate amount of risk would have to be shouldered, by small and mid-sized companies, without the corresponding incentive or reward. However, PTIC is striving to make its operations more efficient[3] and would welcome a framework where small and mid-sized LECs share cost

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[2] PTIC's largest contiguous service area has approximately 35,000 access lines in the rural, Flathead Valley of Montana. In contrast, over forty of the Alaskan communities served have less than 100 access lines. The largest study area, Washington, has an average of only 1,700 access lines per exchange.

[3]At present, 99 percent of PTIC switching systems are digital.

savings and productivity gains with their access customers. PTIC believes, rules which encourage prudent management **and** maintain the desired customer / shareholder / regulator balance merit immediate consideration.

Since the Second Order in CC Docket No. 87-313, PTIC has worked with the USTA to promote an incentive plan for companies which were unable to participate in price caps. The USTA effort has produced a proposal that, PTIC believes, adequately balances the risks and rewards mentioned above. Unfortunately, the NPRM, like the price cap regulations, is encumbered with restrictions which, once again, effectively preclude PTIC, as well as other small and mid-sized companies, from voluntary participation.

Requiring plan participants to leave all Association pools is unreasonable for a large segment of the small and mid-sized LEC portion of the industry.

Within the NPRM description of how the post-April, 1989, Common Line pool operates, one extremely important feature was overlooked: Long Term Support (LTS). Although it is certain that the omission was unintentional, PTIC wishes to emphasize that LTS, paid by LECs which have already opted out of the voluntary pool, is what maintains the pooled Carrier Common Line rate at a competitive level. Without LTS, NECA is no longer able to offer a uniform, nationwide usage rate, incentive for uneconomic bypass is enhanced, and the Commission's universal service objective is compromised.

If incentive regulation were available to small and mid-sized companies, the individual LECs, the associated access customers, as well as the Commission Staff, would all reasonably expect rates, in the long run, to decrease. However, if PTIC were to leave the Common Line pool as anticipated within the NPRM, it would lose any LTS now supporting the nationwide rate and would substantially increase its "stand alone" usage price. In fact, under the present rules concerning voluntary exit from the Common Line pool, at this late date, PTIC would actually assume an obligation to **pay** LTS in support of the remaining NECA members! This fact significantly increases the risk associated with election to participate in any plan with limits such as those contemplated within the NPRM.

PTIC's high loop costs are simply characteristic of small and mid-sized companies which serve the nation's predominately rural and suburban communities. PTIC will, quite possibly, never have subscriber density and/or high volume, business traffic great enough to permit a usage price that is less than several multiples of the nationwide average rate.[4]

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[4] Assuming 1991 average cost and demand experience, PTIC estimates, if the originating rate per minute were held at a penny, a system wide terminating rate would have to be 4.5 cents.

On a study area by study area basis (with originating at 1 cent per minute), the minimum terminating minute rate would be 2 cents, in Montana; and the maximum, in Idaho, would be 23 cents per terminating minute of use!

A bifurcated approach is warranted here. There is no such subsidy mechanism in effect for Traffic Sensitive services.

PTIC's Traffic Sensitive (TS) service prices, standing alone, present a real opportunity for the company and Commission to give an incentive regulation plan a chance. PTIC could remove all of its study areas from the Association's TS pool and achieve rate levels less than the nationwide average prices.

Any risk of discontinuing membership in NECA, for TS only, could be absorbed within an expanded PTIC, interstate access pool for affiliates. Since the advent of access charging, PTIC has shared the benefits of efficiency gains among several of its local company subsidiaries. Company policies permitting some tariff flexibility within acquired divisions have allowed the PTIC Alaska and Midwest study areas to continue their participation in the NECA TS pool to date. However, PTIC does not oppose the Commission concept of "all or nothing" in the election of a TS incentive regulation plan going forward.

PTIC views incentive regulation for TS as a requirement for the firm to behave as if all its services were under the plan. PTIC believes that by achieving gains in such areas as plant maintenance and corporate overheads, its Common Line services will necessarily also experience benefits. It is conceivable that, at some point, corporate efficiency that accrues to Common Line, from the planned incentives afforded TS, could cause PTIC to opt for alternative, Non Traffic Sensitive (NTS) regulation in the future as well.

For the small and mid-sized LECs, there is simply no conceivable amount of "gaming of the system" possible that would allow companies to do anything but aggressively pursue efficiency improvements.

Conclusion

PTIC enthusiastically supports the adoption of incentive regulations as a welcome alternative for small and mid-sized companies. PTIC also supports the comments filed today by USTA.

However, PTIC urges the Commission to consider permitting a bifurcated approach, and not to require complete disassociation with the NECA pool. PTIC views this "TS only" proposal as introducing little or no concern for "gaming the system", while presenting an opportunity for significant improvement to small and mid-sized LEC efficiency.

Finally, PTIC makes these recommendations in earnest, for, without a provision to retain Long Term Support, PTIC believes its affiliates, as well as several similarly situated LECs, will likely avoid this version of incentive options, much as they did price caps.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I, Julia E. Tucker, hereby certify that copies of the foregoing "Comments of PTI Communications in Docket No. 92-135" were served by first-class mail, postage prepaid, this 28th day of August 1992, to the following:

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